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Xaar PLC
18 September 2024

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Xaar plc

2024 INTERIM RESULTS

RESILIENT PERFORMANCE AGAINST A DIFFICULT MARKET BACKDROP

Xaar plc ("Xaar", the "Group" or the "Company"), the leading inkjet printing technology group, today announces its unaudited interim results for the six months ended 30 June 2024.

Financial Summary:

	H1 2024	H1 2023	Change
Revenue	£28.6m	£34.5m	(17%)
Gross profit	£10.1m	£13.8m	(27%)
Gross margin %	35%	40%	(5%)
Gross R&D investment	£2.4m	£2.6m	(8%)
Adjusted EBITDA[1]	£1.0m	£3.5m	(71%)
Adjusted (loss)/profit before tax	(£0.7m)	£1.8m	(139%)
Loss before tax	(£2.8m)	(£1.8m)	(56%)
Loss for the period after tax	(£2.6m)	(£1.3m)	(100%)
Basic loss per share	(3.3p)	(1.7p)	
Net cash at the period end[2]	£6.8m	£6.2m	10%

Financial highlights

- Revenue of £28.6 million (H1 2023: £34.5 million) reflects the expected ongoing decline of the legacy ceramics market, order delays and EPS weakness
- Excluding ceramics, the printhead business delivered new market revenue growth of 26%
- Gross margin of 35% (H1 2023: 40%) due to increased energy costs and reduced overhead absorption
- Adjusted (loss) before tax for the period of (£0.7) million (H1 2023: profit £1.8 million)
- R&D investment of £2.4 million (H1 2023: £2.6 million) reflecting investment in product development
- Group remains well capitalised, with net cash of £6.8 million, up 10%, driven by disciplined cash management

Strategic and operational highlights

- Successful commercialisation of new products, with OEM launches in textiles, corrugate, battery coating and wax markets
- Customer product launches in last five years have created annualised revenue in excess of £20 million delivering compound annual growth rate of 26%
- Strong pipeline of opportunities with a number of key projects expected to deliver in 2025
- Operational efficiency programme continuing, resulting in a £3.4 million (24%) reduction in operating expenses while retaining key capabilities

Outlook

- Trading conditions are consistent with those reported at the FY results
- We are pleased with customer engagement and expect more OEM product launches during the second half of the year
- Our differentiated technology and growing pipeline of customer projects positions us for growth despite challenging end markets
- Market uncertainty persists although expectations for the full year remain unchanged

John Mills, Chief Executive Officer, commented:

"We remain confident in our strategy which is increasingly demonstrating the unique capabilities of our printhead technology. Our pipeline of opportunities has increased in quality in both existing and new application areas and increasing numbers of OEMs are engaged in, or actively planning, new product launches incorporating Xaar printheads. Newly developed high viscosity inks enable us to fully utilise the unique technology of our printheads, and whilst the legacy ceramics market is challenging, masking our success in new market sectors, we have enhanced our customer integration capabilities and are already seeing the benefit in accelerated OEM project launches in other target markets.

We continue to focus on the elements of the business that are within our control, enhancing our technology, supporting customer adoption of our printheads, managing our cost base and strengthening our cash position demonstrating the benefits that Xaar's unique capabilities can deliver to customers. We remain convinced of our ability to maximise the substantial opportunity we have."

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A presentation for analysts and investors will be held in person and via webcast and conference call at 09:15 today. For further details, please contact Xaar@teneo.com

1 - EBITDA is calculated as statutory operating profit before depreciation, amortisation and impairment of property, plant and equipment, intangible assets and goodwill. Adjusted EBITDA is calculated as EBITDA excluding other adjusting items as defined as follows. Adjusted Measures exclude the impact of share-based payment charges, exchange differences relating to intra-group transactions, gain on derivative financial instruments, restructuring and transaction expenses, research and development expenditure credit, fair value loss or gains on financial assets at FVPL, amortisation of acquired intangibles, and discontinued operations as reconciled in note 3.
2 - Net cash includes cash, cash equivalents and treasury deposits, net of invoice discounting facility.

Figures and percentages included in this report are subject to rounding adjustments arising from conversion to £millions from actual figures. Accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

About Xaar plc

Xaar is an inkjet innovator, providing printheads and technologies for OEM and UDI customers worldwide.

By helping customers lay down precise volumes of inks and fluids with absolute pin-point accuracy, time after time, Xaar's inkjet printheads and technologies meet the needs of numerous markets. Covering graphics, labelling, direct-to-shape, packaging, product decoration, ceramic tile and glass decoration, textiles, 3D, décor, and outer case coding applications - as well as printing with specialist functional fluids for advanced manufacturing techniques.

Collaboration is at the very core of its business. Xaar works as a trusted partner from sites in Europe and China, providing expert insights and technical support every step of the way.

With over 30 years' experience, around 200 patents registered or pending, and major ongoing R&D investment, Xaar's digital printhead and precision jetting technologies create infinite opportunities for today's sustainable manufacturing innovation.

Group Chief Executive's review

Positioned for growth with market leading technology

We have delivered a solid financial performance in the first half of 2024 against a tough market backdrop. We have successfully progressed our product development strategy and continue to control what we can control both in positioning the business for growth in a number of new market areas, and in demonstrating disciplined cash management. Despite our strategic progress, results have been impacted by OEM product launch delays, continued weakness in the ceramics market, and a reduction in major project business in EPS. Importantly, we remain confident in our strategy and the long-term opportunity for the Group.

Our business model centres on the sale of highly differentiated printheads, combined with a vertically integrated commercial offering. Our technology enables customers to access the benefits of high viscosity inks through enhanced print functionality and lower financial and environmental cost, including reduced energy costs and lower water usage. We also provide a wide range of components such as inks, ink supply systems and print engines, as well as comprehensive customer support, to better enable the integration of Xaar technology in OEM products. Over the last five years, we have launched a wide range of new products with further additions planned in the current year and beyond.

We have a strong pipeline of OEMs in the process of developing machines that will incorporate our printheads. We now have 22 customers with machines/projects in development, including a number of OEMs in new application areas. Since 2019, new product launches have created annualised revenue in excess of £20 million and delivered a compound annual growth rate of 26%. This progress has been masked by a worse than expected cyclical deterioration in the ceramics market.

Resilient trading in tough market conditions

Group Revenue in the first half reduced by 17% to £28.6 million (H1 2023: £34.5 million) with weakness in the ceramics market, delays in customer launches and a lack of major projects in EPS. The gross margin declined to 35% (H1 2023: 40%) due to decreased overhead absorption rates, significantly higher energy costs and, within EPS, a one-time design change for a leading customer, and customer specific cost increases.

R&D investment at £2.4 million (H1 2023: £2.6 million) was 8.4% of H1 revenue (H1 2023: 7.5% of revenue). An increased proportion of this investment was deployed to support our OEM product launches which will continue to be a priority.

Operating expenses continue to be proactively managed across all business units with a £3.4 million (24%) reduction on H1 2023. Adjusted loss before tax of £(0.7) million was as anticipated and arose from the lower revenue and its impact on the Group's profitability.

We remain well capitalised and ended the half with net cash of £6.8 million through disciplined cash management.

Stronger alignment with customers to take greater control of growth

During FY23 we introduced Project Hubble to improve our operations, providing focus around commercial strategic opportunities, operational efficiency, organisational effectiveness and customer integration.

We have put three key initiatives in place to ensure we maximise our commercial strategic opportunities. The first is to diversify our geographic exposure by targeting OEMs in Europe and USA, which along with our established strategy of having a compelling product in each target market, will build further resilience into our business.

The second initiative is to develop relationships with our end customers, in partnership with our OEMs, allowing us to have a clearer picture of the decisions that drive the adoption timing of their new systems with Xaar technology. The feedback from both end customers and OEMs is that they continue to appreciate this increased involvement.

The final initiative is to ensure a seamless integration of our printheads into our OEM customers' new systems and to better support them as they on-board our technology. Although the high viscosity and high pigment loading capabilities that give Xaar printheads their unique benefits are compelling, we recognise that the integration into the system can be challenging and that the capabilities of OEMs vary materially. To mitigate these challenges, we have developed a complete turnkey solution of ink system, ink, waveform, print modes and all the other parameters associated with a complete product. This has helped OEMs manage system integration issues and enabled a better understanding of the unique characteristics of Xaar printheads.

We have trialled this enhanced approach over the past nine months through close collaboration with a leading customer throughout their product development cycle. The result was to significantly reduce integration issues and accelerate both successful product installation and OEM product launch. Not only does this approach improve the depth of relationships with OEMs, but it enables us to develop market ready solutions that we can sell to the wider market.

One element for future success is the ability to produce full colour print samples and demonstrate the printheads working in the target application as part of an integrated system. Demonstrating not only the printheads capability but also a fully integrated solution will benefit the sales process and also help closer engagement with OEM's.

Product developments enhancing our market-leading offering

The market opportunity for our highly differentiated printheads remains significant, but we have recognised the need to offer a complementary broader range of components such as inks, ink supply systems and print engines. Enhancing the range of products and support we can offer customers is enabling us to respond more rapidly to market needs and deliver the full functionality and performance our OEM partners require.

During the first half, we launched two new printheads, the Xaar eX and Nitrox eX, specifically designed for coating the new generation of batteries used in electric vehicles (EVs) and energy storage systems. The launch marks Xaar as the first inkjet company to enter the battery coating sector with a printhead specifically for this application, setting a new benchmark in this technology.

We have also adapted the Xaar 2002 to create a variant that is capable of running at a temperature in excess of 100°C. The printhead enables higher quality wax to be used in specific applications, such as jewellery manufacturing, which along with the higher resolution and smaller drop size, gives a significantly higher quality product.

Further enhancing our product range, a full set of ultra-high viscosity and highly pigmented inks have now been developed by our ink partners for OEMs to use in conjunction with the Aquinox printhead, ensuring a substantial competitive advantage in the corrugated and textiles market. Higher pigment content means more colour per drop, achieving the same colour density with fewer drops, lowering cost and increasing productivity. Higher viscosity means less water in the ink which reduces the amount of energy needed to dry the substrate and allows for an increase in print speed.

These inks are the first in a series of developments to ensure that we have a qualified high viscosity ink across all of our target markets. The availability of validated inks will enable our OEMs to make more rapid progress in their product developments.

Underpinning our existing product range, our printhead development platform "ImagineX" is continuing to provide enhancements to the current portfolio, helping to further strengthen our technological leadership and enable adoption in new market areas markets. Our continued investment in R&D supports our approach and we will continue to focus on further supporting our customers to enable successful product launches.

Significant market opportunity

Our technology and strategy have expanded our market opportunity and positioned us favourably with a compelling product in four of our five target markets, more than tripling the total addressable market of the Group compared to 2018, and significantly broadening the breadth of the opportunities in our pipeline. Completion of new products for the Wide Format Graphics and Labels markets in due course will enable access to an overall future addressable market of £1 billion across all our target markets. Key developments include:

- CERAMICS: Global ceramics leader System are on track to launch their new printer with Xaar 720dpi printheads in the second half of this year, after successful Beta installation in May. Meanwhile, OEM partner NKT has increased its market share with the same printhead. Our success in re-engaging with market leaders in the Ceramics sector means we are well positioned to gain market share once demand returns to more normal levels.
- CODING & MARKING: A recent product launch from Videojet has enabled further revenue growth in the US. Public endorsement of Xaar's printheads from industry leader KBA Kammann, alongside our significant technical breakthrough in the ultra-high-speed, high-quality printing of 1D and 2D barcodes, are the main reasons for growing interest in our printheads.
- 3D PRINTING: 3D printing continues to provide opportunities across several technologies and markets. We expect a major global supplier of desktop 3D systems to launch their full colour inkjet machines with Xaar printheads by early 2025 after OEM re-designs have caused earlier delays.
- 3D WAX PRINTING: 3D wax printing, specifically for the jewellery market, remains an exciting opportunity. Flashforge launched their first product using Xaar printheads, the Waxjet 510, in Q2 and a higher volume second product with 3 printheads is being launched in Q4. These developments have prompted wider market interest for our products in this area. Overall, despite OEM product delays encountered in 2023, we are confident this market provides a significant opportunity.
- ADVANCED MANUFACTURING: Advanced Manufacturing remains an exciting market for Xaar as our technology enables manufacturers to transition from analogue to digital, with digital inkjet printing replacing other coating methods including screen printing and spray. Many of these applications are extremely well suited to Xaar's printhead characteristics and features, namely its ability to print highly viscous liquids, printing in any orientation rather than purely vertically, printing on curved surfaces and the Through Flow architecture minimising ink blockages. Given we are not displacing incumbent printheads, the size of the opportunity is not bound by the current scope of existing digital print markets. EV batteries, in particular, offer a large-scale opportunity. Production of the coating solution, which passed the required tests in 2023, entered pre-production during the first half. The first production machine, using Xaar printheads, was installed for one of the top six global battery manufacturers in May, with a further two machines being due for installation in the second half.
- PACKING & TEXTILES: Through Xaar Aquinox, we are starting to grow our market share in the Packaging and Textiles industry, albeit from a low base. Delays caused by a lack of commercially available aqueous inks have been remedied with the successful launch of suitable inks for textiles, with the corrugate aqueous inks launching soon. This opens up a sizeable market, and we expect our unique capability to deliver high contrast, full colour print directly, to be an attractive and cost effective solution.
- WIDE FORMAT GRAPHICS: Wide Format Graphics and Labels is the largest single industrial print market, and we remain confident that this market remains open to Xaar although it is not a current area of focus.

Significant environmental benefits of our products

Delivering products which offer significant environmental benefits is a key element of our product strategy. We are dedicated to helping customers reduce their power consumption and water. Digital inkjet printing is inherently more sustainable compared to traditional analogue printing with a smaller carbon footprint. It uses less energy and prevents excessive waste due to the ability to print short runs or direct-to-shape.

Compared to analogue alternatives, digital has a huge impact in reducing energy consumption (by up to 55%), water consumption (by up to 60%) and CO2 emissions (by up to 95%). Furthermore, jetting high viscosity fluids brings additional sustainability benefits as they are proven to use less water and less energy than using standard viscosity fluids. The cost savings and environmental benefits are perhaps best highlighted through our relationship with Axalta, a leading global coatings company. Axalta are using Xaar technology in their Nextjet next generation sustainable digital paint product, which replaces traditional spray painting in the automotive industry. This allows for precise paint placement eliminates masking and reduces labour, energy and waste while increasing productivity and efficiency rates.

Xaar's actuator technology consumes less energy than competitor alternatives, and our industrial printheads are known for their extended lifespan. We use a continuous improvement methodology, and we have adopted a manufacturing ethos of 'reduce, reuse and recycle'. Environmental best practice and our investment in sustainable manufacturing and operational efficiencies remain key areas of business focus. Publication of our inaugural Sustainability Report highlights the transformative progress made towards the objectives set out in the company's Sustainability Roadmap.

We have verified our sustainable impact through the commissioning of an independent research study led by senior academics at Swansea University. The researchers examined the end user benefits of using the Xaar Aquinox printhead and cyan water-based inks from Nazdar and concluded that it enables customers to halve the ink used, meaning transport costs and process energy costs can also be reduced.

Outlook

The first half of 2024 has seen trading conditions consistent with those reported in March, with customers choosing to delay capital expenditure due to the macroeconomic conditions. Despite the success of our product development strategy, closer customer engagement and the popularity of the products, revenue from customers in new sectors has been offset by the significant decline of our ceramics business, masking the underlying progress that we have made. Global volume production of ceramic tiles has fallen by over 50% since peaking in 2020/21, most significantly in China which is by far the largest producer worldwide. Indications are that these market conditions will remain for a period before growth is restored in the medium term.

This has made our task of delivering overall revenue growth more difficult as there is an inevitable time lag between product launches in new sectors and sales growth as volumes ramp up. The result is slower overall progress in revenues for Xaar. Despite this, we expect further OEM product launches during the second half of the year and our high-quality pipeline of opportunities in new markets and in new applications means we remain optimistic about future growth prospects for the Group. We believe that in most cases there are strong economic drivers as to why customers should choose Xaar, and our priority is to make it as easy as possible for them to make that choice. As sales volumes improve and energy costs stabilise, we expect gross margins to improve in the medium term. We remain cautious on providing precise timing given the current market backdrop and uncertainty caused by economic and geopolitical effects.

Although market uncertainty persists, expectations for the full year remain unchanged.

Business Performance

Revenue

Group revenue growth

£m	H1 2024	H1 2023	Var	Var %
Printhead	16.5	17.6	(1.1)	-6%
EPS	7.5	10.7	(3.2)	-30%
FFEI	3.3	4.8	(1.5)	-31%
Megnajet	1.3	1.4	(0.1)	-7%
Total Revenue	**28.6**	**34.5**	(5.9)	-17%

Revenue for the Group was £28.6 million (H1 2023: £34.5 million). for the first half of the year, representing a year-on-year decline of £5.9 million. These results have been achieved in a difficult trading environment with rising costs and elevated interest rates continuing to impact capital equipment sales globally.

Printhead business unit revenue declined by £1.1 million driven by a £3.4 million reduction in ceramic and glass sales. Other markets within our Printhead business delivered revenue growth of 26%, a positive dynamic for when legacy product sales stabilise. EPS revenue fell 30% to £7.5 million largely due to slowdown in capital equipment purchases. Notably, there was a delay in shipping two multi-pass machines in June 2024, the issues of which have since been resolved resulting in the machines shipping in July 2024.

Printhead

Printhead Revenue by Sector

£m	H1 2024	H1 2023	Var	Var %
Ceramics & glass	4.6	8.0	(3.4)	-43%
3D printing & AVM	3.2	2.6	0.6	23%
C&M & DTS	6.0	5.1	0.9	18%
Packaging & textiles	0.4	0.2	0.2	100%
WFG & labels	2.4	1.7	0.7	41%
Total Revenue	**16.5**	**17.6**	(1.1)	-6%

Xaar offers a wide range of industrial inkjet printheads which are designed and produced to meet the customer-driven requirements for a range of manufacturing applications such as ceramic tile decoration, graphics, décor, labels and packaging as well as 3D printing and additive manufacturing.

Printhead revenue in EMEA was £8.6 million (H1 2023: £11.1 million), reflecting the decline in ceramics, while revenue in the Americas rose 22% to £4.7 million on the back of our strategic focus on geographic diversification. Performance in Asia, and China in particular, has benefitted from new product launches with revenue increasing 23% year-on-year. 3D printing and Additive Manufacturing (AVM) continue to grow, reflecting our overall customer strategy and enhanced product portfolio. Overall, we have retained market share, and new business wins continue to mitigate declines in the legacy ceramics business and delays in customer launches utilising the 200X and Aquinox printheads.

EPS

EPS manufactures a range of highly customised product print systems printing all kinds of industrial and promotional objects such as medical equipment, automotive parts, tools, apparel, appliances, sports equipment and toys.

Revenue from the EPS business fell by £3.2 million to £7.5 million (H1 2023: £10.7 million). This has been driven by a decrease in digital inkjet machines sales of 37% impacted by two multi-pass machines not shipping in June. The pad printing revenue stream has also fallen, which we expect to recover during H2 2024.

FFEI and Megnajet

FFEI develops high performance digital imaging solutions - from digital inkjet label presses to digital pathology scanners. Its inkjet products - print engines - use Xaar printheads. Megnajet specialises in the design and manufacture of industrial fluid management systems for digital inkjet and are the most integrated and compact ink systems in the market today.

FFEI revenue was £3.3 million (H1 2023: £4.8 million). The reduction results from exiting the non-core Life Science business which was considered to be non-core strategically. Revenue excluding Life Science business grew by 3%, year-on-year. Megnajet delivered £1.3 million of revenue, in line with the prior year and overall, we remain pleased with the performance of this business as we increased the customer base by 15%.

Gross profit

Gross profit decreased by £3.7 million to £10.1 million (H1 2023: £13.8 million) with the gross margin at 35% (H1 2023: 40%), driven by reduced sales volumes, decreased overhead absorption rates and significantly higher energy costs. As revenues grow and energy costs stabilise, we expect gross margins to improve in the medium term. Within EPS, a one-time design change for a leading customer and customer specific cost increases added to the pressure on gross margin from a fall in volumes. Gross margin for FFEI was flat year-on-year when accounting for the £2.0 million one off gain from the sale of IP assets in the first half of 2023 while Megnajet successfully grew its margin 9% due to improved pricing outcomes and operational efficiency improvements.

Research & Development

Gross R&D was £2.4m in the first half, up 0.9% as a percentage of revenue compared to the first half of 2023. On an absolute basis the reduction was £0.2m. We are continuing to invest in the business and have remained within a ratio of R&D investment/revenue of 8-10%.

Operating Expenses

While we have continued to face inflationary headwinds in areas such as labour and travel costs, we have been successful in our efforts to manage expenses across the business. The sales and marketing expense for the period was £2.5 million (H1 2023: £3.2 million) reflecting the continued focus on cost management. General and administrative expenses decreased to £6.0 million from £10.3 million in H1 2023. This reduction reflects the difficult decision taken in 2023 to reduce headcount together with a clear focus on reducing discretionary spend across the business. FFEI printbar manufacturing transitioned to Huntington during H1 2024 capturing further cost efficiencies and synergies.

Profit for the period

Adjusted loss before tax was £(0.7) million. During the comparative period in 2023 Adjusted profit before tax was £1.8 million, aided by a one-off gain due to the sale of non-core IP assets of £2.0 million.

The loss for H1 2024 was driven by the Printhead business with an Adjusted loss before tax of £(1.6) million, albeit an improvement on the £(2.2) million reported in the prior period. This improvement was driven by the reduction in operating expenditure offsetting the gross margin decrease in the period.

In calculating the adjusted profit before tax, we have adjusted for fair value losses on financial assets of £0.2 million (H1 2023: £0.5 million) alongside restructuring costs of £0.4 million (H1 2023: £1.0 million), foreign exchange gains on intra-group loans of £43,000 (H1 2023: loss (£0.4) million), share-based payments of £0.8 million (H1 2023: £1.3 million) and amortisation of acquired intangible assets of £0.8 million (H1 2023: £0.5 million). After taking these into account, the loss before tax was £(2.8) million.

The adjusted EBITDA in the period was £1.0 million (H1 2023: £3.5 million).

Balance sheet

The Group retains a strong balance sheet, with a net cash position at 30 June 2024 of £6.8 million.

The Group remains focused on managing working capital efficiently. Inventory has increased by £0.2 million to £31.3 million whilst trade and other receivables have decreased by £1.0 million. Following discussion with the Board, the proactive decision was taken to keep inventory levels broadly flat at current demand levels to allow us to respond rapidly to future demand growth. Our medium term aim remains to reduce inventory levels further as demand becomes more stable.

The Group has a Revolving Credit Facility (RCF) of £5 million in place with our lead bank, HSBC, to ensure we have adequate resources to invest in the business and our operational capability when required. To date, this has remained undrawn.

Cash flow

Net cash on hand was £6.8 million was an increase on both H1 2023 and full year 2023 closing positions (H1 23: £6.2 million, FY 2023: £5.7 million) reflective of the Group's balance sheet resilience and ongoing focus on careful liquidity management. Despite challenging trading conditions resulting in a six-month Group loss before tax of £2.8 million, adjusting for the impact of non-cash items returns a £0.9m positive operating cashflow before movements in working capital. The outcome of targeted liquidity management activities, as we continue to manage KPIs in our direct control, is an improvement in working capital driving cash inflows of £2.9 million and, therefore, £3.9 million cash generated from operations in the period.

Other than finance leases, the largest cash outflow outside of operating activities has been the payment of the Group's deferred consideration obligations arising from the acquisitions of FFEI and Megnajet, amounting to £1.4 million in the first half of the year. All acquisition related liabilities will be settled by the end of the year and without these downwards pressures we have confidence in delivering further net cash inflows during the remainder of the year. Borrowings against receivables balances increased £0.5 million from 31st December 2023 to £1.9 million (2023: £1.4 million), resulting in net cash inflows of £1.1 million.

Dividend

The Board regularly reviews capital allocation and believes that prioritising investment to enable profitable growth for the business is currently the most appropriate use of capital, therefore, no interim dividend has been declared for H1 2024.

John Mills Chief Executive Officer	Ian Tichias Chief Financial Officer

17 September 2024

Directors' responsibilities statement

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting as adopted by the UK
- The interim management report includes a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

By Order of the Board

John Mills
Chief Executive Officer

17 September 2024

INDEPENDENT REVIEW REPORT TO XAAR PLC

Conclusion

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 which comprise the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Statement of Changes in Equity, and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK-adopted IASs. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the 'Basis for conclusion' section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of financial information

In reviewing the half-year report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the company's directors, as a body, in accordance with the terms of our engagement letter dated 16 July 2024. Our review has been undertaken so that we might state to the company's directors those matters we have agreed to state to them in a reviewer's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's directors as a body, for our work, for this report, or for the conclusions we have formed.

Daniel Hutson

Statutory Auditor

PKF Littlejohn LLP, 15 Westferry Circus, Canary Wharf, London

17 September 2024

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2024

		Six months ended 30 June 2024 (unaudited)			Six months ended 30 June 2023 (unaudited)		
	Notes	**Adjusted £'000**	**Adjusting Items* £'000**	**Total £'000**	Adjusted £'000	Adjusting Items* £'000	Total £'000
Revenue	2	**28,640**	-	**28,640**	34,515	-	34,515
Cost of sales		**(18,575)**	-	**(18,575)**	(20,693)	-	(20,693)
Gross profit		**10,065**	-	**10,065**	13,822	-	13,822
Selling, general and administrative expenses	3	**(8,192)**	**(2,118)**	**(10,310)**	(11,376)	(3,647)	(15,023)
Research and development expenses		**(2,365)**	-	**(2,365)**	(2,617)	-	(2,617)
Other income		-	-	-	2,201	-	2,201
Operating (loss)/profit		**(492)**	**(2,118)**	**(2,610)**	2,030	(3,647)	(1,617)
Finance income		**57**	-	**57**	37	-	37
Finance costs		**(255)**	-	**(255)**	(235)	-	(235)
(Loss)/profit before tax		**(690)**	**(2,118)**	**(2,808)**	1,832	(3,647)	(1,815)
Tax credit	4	**191**	-	**191**	9	458	467
(Loss)/profit for the period		**(499)**	**(2,118)**	**(2,617)**	1,841	(3,189)	(1,348)

(Loss)/earnings per share					
Basic	5	**(0.6)**	**(3.3)**	3.1	(1.7)
Diluted	5	**(0.6)**	**(3.3)**	3.1	(1.7)

* Further information on adjusting items is included in Note 3

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Six months ended 30 June 2024 (unaudited) £'000	Six months ended 30 June 2023 (unaudited) £'000
Loss for the financial period	**(2,617)**	(1,348)
Exchange gains/(losses) on translation of foreign operations	**47**	(315)
Other comprehensive income/(expense) for the period	**47**	(315)
Total comprehensive expense for the period	**(2,570)**	(1,663)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

	Notes	**As at 30 June 2024 (unaudited)**	As at 31 December 2023 (audited)
Non-current assets			
Goodwill		**6,910**	6,873
Other intangible assets		**6,490**	7,366
Property, plant and equipment		**13,520**	14,529
Right-of-use assets		**7,275**	7,826
Financial asset at fair value through profit or loss	6	**9,975**	8,277
Deferred tax assets		**496**	493
Non-current financial assets		**104**	136
		44,770	45,500
Current assets			
Inventories		**31,265**	31,035
Trade and other receivables		**7,805**	8,802
Contract assets		**1,892**	2,156
Current tax receivable		**633**	306
Financial asset at fair value through profit or loss	6	**365**	2,322
Cash and cash equivalents		**8,725**	7,135
		50,685	51,756
Total assets		**95,455**	97,256
Current liabilities			
Trade and other payables		**(9,019)**	(9,568)
Deferred consideration		**(738)**	(2,115)
Provisions		**(460)**	(972)
Contract liabilities		**(4,916)**	(2,369)
Borrowings	7	**(1,915)**	(1,403)
Lease liabilities		**(1,609)**	(1,800)
		(18,657)	(18,227)
Net current assets		**32,028**	33,529
Non-current liabilities			
Lease liabilities		**(6,417)**	(6,898)
Provisions		**(300)**	(300)
		(6,717)	(7,198)
Total liabilities		**(25,374)**	(25,425)
Net assets		**70,081**	71,831
Equity			
Share capital	8	**7,937**	7,923
Share premium		**30,007**	29,950
Own shares		**(566)**	(566)
Translation reserve		**1,357**	1,310
Other reserves		**6,256**	6,256
Retained earnings		**25,090**	26,958
Total equity attributable to the equity shareholders of the parent		**70,081**	71,831

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Share capital £'000	Share premium £'000	Own shares £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2023	7,844	29,427	(775)	1,628	6,256	27,389	71,769
Loss for the period	-	-	-	-	-	(1,348)	(1,348)
Other comprehensive expense	-	-	-	(315)	-	-	(315)
Total comprehensive expense	-	-	-	(315)	-	(1,348)	(1,663)
Issue of ordinary shares	14	16	-	-	-	-	30
Own shares disposed of on exercise of share options	-	-	209	-	-	-	209
Exercise of share options	-	-	-	-	-	(186)	(186)
Share-based payments	-	-	-	-	-	1,184	1,184
Balance at 30 June 2023	7,858	29,443	(566)	1,313	6,256	27,039	71,343
Loss for the period	-	-	-	-	-	(826)	(826)
Other comprehensive expense	-	-	-	(3)	-	-	(3)
Total comprehensive expense	-	-	-	(3)	-	(826)	(829)
Issue of ordinary shares	65	507	-	-	-	-	572
Exercise of share options	-	-	-	-	-	(8)	(8)
Share-based payments	-	-	-	-	-	753	753
Balances at 31 December 2023	7,923	29,950	(566)	1,310	6,256	26,958	71,831
Loss for the period	-	-	-	-	-	(2,617)	(2,617)
Other comprehensive income	-	-	-	47	-	-	47
Total comprehensive income/(expense)	-	-	-	47	-	(2,617)	(2,570)
Issue of ordinary shares	14	57	-	-	-	-	71
Exercise of share options	-	-	-	-	-	(7)	(7)
Share-based payments	-	-	-	-	-	756	756
Balance at 30 June 2024	**7,937**	**30,007**	**(566)**	**1,357**	**6,256**	**25,090**	**70,081**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Note	**Six months ended 30 June 2024 (unaudited) £'000**	Six months ended 30 June 2023 (unaudited) £'000
Cash generated/(utilised) from operations	11	**3,868**	(3,227)
Net income taxes (paid)/received		**(139)**	340
Net cash inflow / (outflow) from operating activities		**3,729**	(2,887)
Investing activities			
Interest income received		**57**	37
Purchases of property, plant and equipment		**(373)**	(942)
Purchases of intangible assets		**(35)**	(257)
Proceeds from sale of intangible assets		-	2,312
Cash earn-out received from financial asset at FVTPL		**73**	550
Net cash (outflow) / inflow from investing activities		**(278)**	1,700
Financing activities			
Proceeds from sale of own shares		-	32
Proceeds from issue of shares		**64**	30
Lease payments		**(883)**	(591)

Interest paid	**(20)**	-
Net inflow from invoice discounting facility	**473**	649
Payment of deferred consideration	**(1,400)**	-
Net cash (outflow) / inflow from financing activities	**(1,766)**	120
Net increase / (decrease) in cash and cash equivalents	**1,685**	(1,067)
Cash and cash equivalents at beginning of period	**7,135**	8,546
Effect of foreign exchange rate changes on cash balances	**(95)**	(176)
Cash and cash equivalents at end of period	**8,725**	7,303

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

1. Basis of preparation and accounting policies

General information

Xaar Plc ("the Company" and together with its subsidiaries "the Group") is a public limited company whose shares are listed on the London Stock Exchange, is incorporated and domiciled in the United Kingdom and is registered in England under the Companies Act 2006.

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2024 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the United Kingdom. The interim condensed consolidated financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2023.

The interim condensed consolidated financial statements are unaudited and do not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2023 are as reported in the Group's consolidated statutory financial statements for that financial year. Those financial statements have been reported on by the Group's Auditor and delivered to the Registrar of Companies. The Independent Auditor's Report for the year ended 31 December 2023 was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

Going concern

The Group has prepared the interim condensed consolidated financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

Principal accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023.

New accounting standards, interpretations and amendments

Several amendments apply for the first time in the six months ended 30 June 2024. As previously reported in the Group's Annual Report and Financial Statements for the year ended 31 December 2023, these amendments do not have a material financial or disclosure impact on the Group's interim condensed consolidated financial statements for the six months ended 30 June 2024.

Key sources of estimation uncertainty and critical accounting judgements

In preparing these interim condensed consolidated financial statements, the critical accounting judgements and key sources of estimation uncertainty are consistent with those disclosed in the Group's Annual Report and Financial Statements for the year ended 31 December 2023.

Principal risks and uncertainties

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has an established, structured approach to risk management, which includes continuously assessing and monitoring the key risks and uncertainties of the business. An outline of the key risks and uncertainties faced by the Group and the potential impact of these risks on of the Group's strategy and financial performance, together with details of specific mitigating actions, is detailed on pages 16 to 25 of the Group's Annual Report and Financial Statements for the year ended 31 December 2023, which is available on the Group's website at www.xaargroup.com.

The Board has reviewed these risks as part of the half year risk assessment update resulting in several changes which are reflected in the Group's Interim Report for the six months ended 30 June 2024. Details of all such key changes are included in the risks and uncertainties section of this report.

2. Operating segments

The Group's operating segments are determined based on the internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Chief Executive Officer, with support from the other members of the Board of Directors, being the individual who is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The principal activities of the Group are presented in the following segments: 'Printhead', 'Product Print Systems', 'Digital Imaging' and 'Ink Supply Systems'. This presentation reflects how the Group's operating performance is reviewed internally by management.

Six months ended 30 June 2024 (unaudited)	**Note**	**Printhead £'000**	**Product print systems £'000**	**Digital imaging £'000**	**Ink supply systems £'000**	**Unallocated £'000**	**Total £'000**
Revenue - external		**16,524**	**7,512**	**3,304**	**1,300**	**-**	**28,640**
Revenue - intra segment		**501**	**-**	**449**	**280**	**(1,230)**	**-**
Adjusted operating (loss)/profit		**(1,333)**	**480**	**(124)**	**485**	**-**	**(492)**
Adjusting items	3	**(8)**	**(307)**	**(941)**	**(93)**	**(769)**	**(2,118)**
Operating (loss)/profit		**(1,341)**	**173**	**(1,065)**	**392**	**(769)**	**(2,610)**

Six months ended 30 June 2023 (unaudited)	Note	Printhead £'000	Product print systems £'000	Digital imaging £'000	Ink supply systems £'000	Unallocated £'000	Total £'000
Revenue - external		17,618	10,697	4,769	1,431	-	34,515
Revenue - intra segment		358	-	-	(26)	(332)	-
Adjusted operating (loss)/profit		(2,178)	1,335	2,468	405	-	2,030
Adjusting items	3	(1,167)	(585)	(512)	(109)	(1,274)	(3,647)
Operating (loss)/profit		(3,345)	750	1,956	296	(1,274)	(1,617)

3. Adjusting items

The Directors believe that the 'adjusted profit before tax' and 'adjusted earnings per share' alternative performance measures presented provide a consistent presentation of the Group's underlying operational performance. They also present shareholders with a clearer insight of performance metrics used by the Chief Operating Decision Maker and mitigate volatility, resulting from external factors that are not influenced by the Group.

These items are as defined below and have been presented consistently in both the current and prior interim periods and remain consistent with the audited information as disclosed in the Annual Report and Financial Statements for the year ended 31 December 2023.

		Six months ended 30 June 2024 £'000 (unaudited)	Six months ended 30 June 2023 £'000 (unaudited)
Share-based payment charges	(i)	**770**	1,274
Exchange (gains)/losses on intra-group transactions	(ii)	**(43)**	362
Restructuring and transaction expenses	(iii)	**356**	978
Fair value losses on financial assets at FVTPL	(iv)	**186**	514
Amortisation of intangible assets arising on business combinations	(v)	**849**	519
Affecting operating loss before tax		**2,118**	3,647
Tax effect of adjusting items		**-**	(458)
Total adjusting items after tax		**2,118**	3,189

(i) Comprises share-based payment charges of £756,000 (2023: £1,184,000) and the corresponding charge of £14,000 (2023: £90,000) for the associated employer's social security contributions and are included in the selling, general and administrative expenses.

(ii) Comprises exchange gains or losses as a result of intra-group transactions in the United States of America. Such costs are included in selling, general, and administrative expenses.

(iii) Restructuring costs include provision for redundancy costs of £343,000 (2023: £252,000) and £13,000 (2023: £723,000) of costs resulting from the Group's operational efficiency program. Such costs are included in selling, general, and administrative expenses.

(iv) Comprises the fair value movement on contingent consideration that arose on the Group's divestment of Xaar 3D Limited. Such costs are included in selling, general, and administrative expenses. Refer to Note 6 for further information.

(v) The intangible assets consist of the software, patents and customer relationships recognised on acquisition of FFEI Limited in 2021 and the customer relationships and brand value recognised on acquisition of Megnajet Limited in 2022. These costs are included in selling, general, and administrative expenses.

4. Taxation

The Group calculates the tax credit for the six months ended 30 June 2024 by applying the expected annual effective tax rate for the year ending 31 December 2024 to the Group's profits chargeable to corporation tax for the six-month period.

Tax credit

The major components of the tax credit recognised in the Condensed Consolidated Income Statement are as follows.

	Six months ended 30 June 2024 (unaudited) £'000	Six months ended 30 June 2023 (unaudited) £'000
Current tax		
Current income tax credit - UK Adjustments in respect of prior years	**(191)**	(306)
Current income tax charge - overseas	**-**	46
Adjustments in respect of prior years	**-**	(501)
	(191)	(761)
Deferred tax		
Origination and reversal of timing differences	**-**	294
	-	294
Total tax credit	**(191)**	(467)

Unrecognised deferred tax assets

The Group continues to have significant unrecognised deferred tax assets consist with the position as at 31 December 2023 (£30,236,000). Full details of the nature of these balances are disclosed in the Group's Annual Report and Financial Statements for the year ended 31 December 2023.

5. Earnings per share

Basic EPS and adjusted basic EPS are calculated by dividing the earnings attributable to the equity shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS and adjusted diluted EPS are calculated on the same basis as basic EPS but with a further adjustment to the weighted average number of shares outstanding to assume conversion of all potentially dilutive ordinary shares. Such potentially dilutive ordinary shares comprise share options and awards granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and any unvested shares which have met, or are expected to meet, the performance conditions at the end of the period.

Earnings	**Six months ended 30 June 2024 (unaudited) £'000**	Six months ended 30 June 2023 (unaudited) £'000
(Loss)/profit attributable to equity shareholders of the parent - adjusted	**(499)**	1,841
Adjusting items	**(2,118)**	(3,189)
Loss attributable to equity shareholders of the parent - reported	**(2,617)**	(1,348)

	Number	Number
Number of shares		
Weighted average number of ordinary shares in issue	**78,647,411**	78,475,429
Less: ordinary shares held by the Xaar Technology Employee Benefit Trust and the Xaar Plc ESOP Trust	**(335,556)**	(358,282)
Weighted average number of ordinary shares for the purposes of basic EPS	**78,311,855**	78,117,147
Effect of potential dilutive ordinary shares - share options and awards*	**—**	726,499
Weighted average number of ordinary shares for the purposes of diluted EPS	**78,311,855**	78,843,646

*Due to the Group recording a loss in the period 923,973 potentially dilutive shares are not considered within the calculation.

	Pence per share	Pence per share
Basic EPS	**(3.3)**	(1.7)
Diluted EPS	**(3.3)**	(1.7)
Adjusted basic EPS	**(0.6)**	3.1
Adjusted diluted EPS	**(0.6)**	3.1

6. Financial instruments

The Group's activities expose it to a variety of financial risks that include currency risk, interest rate risk, credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements: accordingly, the following disclosures should be read in conjunction with the Group's financial statements for the year ended 31 December 2023.

The Directors consider there to be no material difference between the carrying value and the fair value of financial instruments classified as held at amortised cost. For the items classified as held at fair value, the fair value of such instruments is recognised in the Condensed Consolidated Statement of Financial Position as the carrying amount.

Financial instruments held at fair value

The Group has one financial instrument held at fair value, the contingent consideration that arose on the Group's divestment of its remaining interest in Xaar 3D Limited during the year ended 31 December 2021. The Group received net cash consideration of £9,272,000 as well as a potential entitlement to additional cash consideration of up to £10,863,000 calculated on an earn-out basis at 3% of revenue per annum, with additional amounts becoming receivable on meeting revenue milestones.

Financial instruments that are measured at fair value are classified using a fair value hierarchy that reflects the source of inputs used in deriving the fair value. The three classification levels are:
+ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
+ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
+ Level 3: from valuation techniques that includes inputs for the asset or liability that are not based on observable market data (i.e. unobservable market inputs.

The financial asset at FVTPL is deemed to be a Level 3 instrument. As at 30 June 2024, fair value has been estimated by assuming a straight line reduction in fair value per percentage change in forecast revenue. Fair value movements are recognised in the Condensed Consolidated Income Statement in selling, general and administrative expenses.

The movement in the carrying value of the financial asset is as follows:

	30 June 2024 (unaudited) £'000	31 December 2023 (audited) £'000
Balance at beginning of period/year	**10,599**	11,606
Earn out received	**(73)**	(140)
Milestone consideration received	**-**	(497)
Fair value loss on financial assets at FVTPL*	**(186)**	(370)
Balance at end of period/year	**10,340**	10,599

* Includes foreign exchange rate movements

7. Borrowings

	30 June 2024 (unaudited) £'000	31 December 2023 (audited) £'000
Amounts falling due within one year		

Amounts falling due within one year

Invoice discounting facility	**(1,915)**	(1,403)
	(1,915)	(1,403)

Invoice discounting facility

The facility limit is £3 million (2023: £3 million) and operates on a rolling basis from the original inception date of September 2022. The facility can be cancelled with a three-month notice period. There are no covenants attached to the invoice discounting facility.

Interest on the invoice discounting facility is charged daily when the facility is in an overdrawn position at a rate equivalent to the appropriate base rate +1.75% pa. There is an annual service fee of £25,000 charged monthly, and there was a one-off arrangement fee to open the facility of £10,000. No interest is payable on the unutilised element on the facility.

Further details relating to this facility can be found within Note 27 of the Group's consolidated financial statements for the year ended 31 December 2023.

Committed facilities

In June 2023, the Group entered into a Revolving Credit Facility (RCF) agreement of £5 million, which matures in June 2025, with an option to extend for a further year, subject to lender approval. The agreement includes an accordion option of a further £2.5 million which can be requested at any time during the facility term, subject to lender approval and relevant fees. The facility remained undrawn as at 30 June 2024.

The facility bears a floating interest rate of the Sterling Overnight Indexed Average (SONIA) rate plus 2.35% margin. A non-utilisation fee of 40% of the margin is chargeable on undrawn and uncancelled amounts.

The facility is secured by fixed and floating charges over the assets of the Group. The Group is subject to financial covenants under the facility and has complied with these at all testing points.

8. Share capital

Authorised, issued and fully paid	**£'000**	**Number**
At 1 January 2023	7,844	78,446,230
Shares issued during the year (ordinary shares at 10.0p each)	79	783,775
At 31 December 2023	7,923	79,230,005
Shares issued during the period (ordinary shares at 10.0p each)	14	139,378
Balance at 30 June 2024	**7,937**	**79,369,383**

The Company has one class of ordinary shares which carries no right to fixed income.

9. Share-based payments

Long-term incentive plans

During the six months ended 30 June 2024, new options over 1,462,281 shares were granted (2023: 1,160,074) and 71,560 vested options (2023: 178,969) were exercised.

The weighted average fair value of options granted as at 30 June 2024 was 91.5p (2023: 155.9p).

Fair value of awards with non-market performance conditions (cumulative adjusted profit before tax and cumulative revenue) are calculated using the Black Scholes model. Fair values of awards with market-based performance conditions (total shareholder return) are calculated using the Monte Carlo model. The inputs into the models for awards granted in the current and prior periods were as follows:

	Six months ended 30 June 2024	**Six months ended 30 June 2023**
Date of grant	29 April 2024	9 May 2023
Share price at grant	115p	186p
Exercise price	nil	nil
Expected volatility	51.5%	56.8%
Risk-free rate	4.5%	3.8%
Contractual life	3 years	2.91 years

All LTIP awards are subject to achievement of the performance conditions and can be exercised up to ten years after the grant date. Save as permitted in the LTIP rules, awards lapse on an employee leaving the Group.

Options exercised in the period were satisfied in full by the issue of new shares. In the prior period, 85,469 of the options exercised were satisfied using shares held by the Xaar Plc ESOP Trust, with the remaining 93,500 being satisfied by the issue of new shares.

Deferred bonus plans

No new options were granted in the period (2023: 45,456) and no vested options were exercised (2023: none).

No new options were granted in the period (2023: [illegible]) and no vested options were exercised (2023: none).

Save as you earn schemes

No new options were granted in the period (2023: 494,309). A total of 62,524 vested options were exercised (2023: 679,695).

10. Dividends

No interim dividend was proposed or paid during either the current or preceding period. The Board of Directors are mindful of the importance of dividends to its shareholders and intends to resume the payment of dividends as soon as conditions allow.

11. Notes to the cash flow statement

	Six months ended 30 June 2024 (unaudited) £'000	Six months ended 30 June 2023 (unaudited) £'000
Loss before tax	**(2,808)**	(1,815)
Adjustments for:		
Depreciation of property, plant and equipment	**1,404**	1,438
Depreciation of right-of-use assets	**550**	542
Amortisation of intangible assets	**911**	581
Net interest expense	**197**	198
Unrealised currency translation losses	**46**	280
Share-based payments charge	**770**	1,274
Fair value losses on financial assets at FVTPL	**186**	514
Gain on disposal of property, plant and equipment	**-**	(11)
Gain on disposal of intangible assets	**-**	(2,036)
Net gain on disposal of leases	**(5)**	-
(Decrease)/increase in provisions	**(315)**	25
Operating cash flows before movements in working capital	**936**	990
Increase in inventories	**(207)**	(3,167)
Decrease/(increase) in receivables	**1,316**	(6)
Increase/(decrease) in payables	**1,823**	(1,044)
Cash generated/(utilised) from operations	**3,868**	(3,227)

Analysis of changes in net debt

	Cash and cash equivalents £'000	**Lease liabilities £'000**	**Borrowings £'000**	**Deferred consideration £'000**	**Net debt £'000**
Net debt as at 1 January 2023	8,546	(8,832)	(379)	(3,740)	(4,405)
Additions to leases	-	(827)	-	-	(827)
Cash flows	(1,067)	591	(649)	-	(1,125)
Foreign exchange and other non-cash movements	(176)	(70)	(32)	(66)	(344)
Net debt as at 30 June 2023	7,303	(9,138)	(1,060)	(3,806)	(6,701)
Cash flows	(160)	593	(266)	1,746	1,913
Foreign exchange and other non-cash movements	(8)	(153)	(77)	(55)	(293)
Net debt as at 31 December 2023	7,135	(8,698)	(1,403)	(2,115)	(5,081)
Additions to leases	-	(75)	-	-	(75)
Cash flows	1,685	883	(473)	1,400	3,495
Foreign exchange and other non-cash movements	(95)	(136)	(39)	(23)	(293)
Net debt as at 30 June 2024	**8,725**	**(8,026)**	**(1,915)**	**(738)**	**(1,954)**

12. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2024 to 30 June 2024 and were approved by the Board on 17 September 2024.

Further copies of the interim financial statements are available from the Company's registered office, 3950 Cambridge Research Park, Waterbeach, CB25 9PE, and can be accessed on the Xaar plc website, www.xaargroup.com.

Risks and uncertainties

Several potential risks and uncertainties exist which could have a material impact on the Group's performance over the second half of the financial year and could cause actual results to differ materially from expected and historical results.

The Group has continued identifying, evaluating, and managing the key risks which could impact the Group's performance over the six months to 30 June 2024.

The full list of principal risks identified at the year-end and a description of how they relate to the Group's strategy and the approach to managing them are set out on pages 19 to 25 of the Xaar plc Annual Report and Financial Statements 2023, which is available on the Group's website at www.xaar.com. Management and the Board have reviewed these risks and concluded they will continue to remain relevant for the second half of the financial year. The principal risks as at 30 June 2024, showing any changes from the 2023 year-end disclosure, are summarised in the table below:

Risk Area: Market		
Description	**Likelihood/Magnitude**	**Changes since 31 December 2023**
1. Competition Monitoring and adjusting to competitive dynamics such as pricing/promotion, innovation, resource investments and market share changes	**Unlikely/Very High**	No change.
2. Failure to identify market requirements Successfully developing products with the characteristics that meet market requirements within the necessary timescale.	**Possible/Very high**	Increased. More work required than anticipated to help customers integrate new products.
3. Commercialising and maintaining products with cutting edge technology Creating value by generating innovative products that deliver significant customer benefit.	**Probable/Very High**	Increased. Project to help customers with sourcing high viscosity inks.
4. Merger and acquisition opportunities Our strategy is predicated primarily on organic growth. Seek opportunities to expand, create synergies and generate greater shareholder value.	**Probable/Medium**	No change.
Risk Area: Operational		
5. Climate change Identifying risks and scenario planning of physical and transition impact upon operations and developing mitigating actions.	**Possible/Medium**	No change
6. Organisational capability Having the right people in the right roles.	**Possible/High**	Increased. Increased challenges in recruiting and retaining key workforce skills.
7. Partnerships and alliances Working with the right companies, at the right time on the right terms to deliver long-term value.	**Possible/Medium**	No change.
8. Supply chain Optimising sourcing and supply chain relationships to drive performance and minimise operational issues.	**Unlikely/Medium**	Reduced. Impact of shipping disruptions in the Red Sea reduced.
9. War in Ukraine and the Middle East The war in Ukraine continues to impact the near-term outlook for the UK and global economies and increased uncertainty over the path ahead. Although energy prices have stabilised, they continue to be a concern for the UK economy which also result in further upward pressure on inflation and a potential hit to GDP growth. The conflict between Israel and Hamas has further destabilised the Middle East.	**Probable/Medium**	Reduced. Energy prices have further stabilised and further work on energy cost control undertaken. Have built new customer relationships to diversify the customer base for key sectors and regions.
10. Laws and regulations Compliance with key laws and regulations in all countries Group operates in.	**Possible/Medium**	No change.
Risk Area: IT		
11. IT systems and control environment Strengthen IT infrastructure and key IT systems. Enhance and build resilience by investing in	**Possible/High**	No change.

resilience by investing in and implementing new IT infrastructure or IT systems.		
12. Cyber security risk Loss of systems or confidential data due to a malicious cyber-attack, leading to disruption to business operations and loss of data.	**Possible/Medium**	No change.
Risk Area: Financial		
13.Ability to access sufficient capital Ability to access sufficient capital to fund growth opportunities.	**Unlikely/High**	No change.
14. Customer credit exposure Offering credit terms ensuring recoverability is reasonably assured.	**Possible/Low**	No change.
15. Inventory obsolescence Holding excess inventory levels when compared to demand, that leads to increased risk of obsolescence and write-off before consumption.	**Probable/High**	No change.
16. Exchange rates Monitoring global economic events and mitigating any resulting significant exchange rate impacts	**Probable/Medium**	No change

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